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NEC Briefing DRAFT

CAPACITY OF THE WEST GERMAN ECONOMY TO SUPPORT REARMAMENT *B1*

No thorough-going and comprehensive research has been done by the United States government on the capacity of the West German economy to support an expanded defense effort. Those experienced in negotiations on the German defense contribution are convinced that serious political obstacles would be encountered long before economic factors limited Germany's ability to support rearmament.

Present State
of the Economy

- All authorities agree it is now healthiest of any major European country.
- Gross National Product rose 6.5 percent in 1952 to approximate \$30 billion; is expected to rise 5 to 7 percent in current fiscal year; may, according to some State Department estimates, increase 40 percent over next ten years.
- Total industrial production index now at all-time high: 156 percent of 1936 level.
- Unemployment at postwar low.

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- Gold and dollar reserves at postwar peak.
- Holds chronic creditor position in European Payments Union, and American officials hence recommending it seek foreign investments to reduce its credit account.
- Currency so stable that Bonn government planning free convertibility in not distant future.
- West German exporters now active competitors in most foreign markets.

Industrial Capability for Regainment

- West Germany's industrial production now informally rated by Foreign Operations Administration as about equal to Nazi Germany's on eve of World War II-- hence industry could presumably be converted to arms production relatively rapidly, given the necessary raw materials and a few centralized controls over key vital sectors of the economy.

For example:

1. West German machine tool industry, the key to fast conversion, is now larger than in pre-war Germany;

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2. Optical, chemical, communications and vehicle manufacturing industries are already considered adequate for mobilization needs.

--- FOA considers that Allied postwar disarmament measures in Germany constitute no great obstacle to rearmament conversion since few new arms plants are required, and only a small portion of present manufacturing plants require specially constructed equipment.

--- Hence FOA estimates that:

1. Small arms could be produced in quantity 12 to 18 months from beginning of rearmament effort;
2. Tanks and heavy artillery could start into production in two and a half years, volume production being reached in another year, although General Heusinger, the Federal Republic's chief defense planner, has said that it would take four years.

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- The German armament industry's chief potential dependence on the West is for raw materials, particularly high grade iron ore and some non-ferrous metals.
- West Germany's present defense contribution**
- Theoretically committed, in NATO fiscal year ending 30 June 1953, to pay equivalent of \$2.4 billion or about 8 percent of Gross National Product, because EDC not yet ratified.
 - Actually, because EDC not yet ratified, paid only support costs to Allied occupation troops at rate of \$1.7 billion annually, exclusive of certain occupation carry-over costs and certain domestic expenditures chargeable to defense.
 - The difference simply represented a saving to the federal treasury.
 - In the current fiscal year Bonn is pledged to spend the equivalent of \$2.7 billion, but will save about \$1

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billion if EDC remains unratified, the finance minister refusing to place any part of this sum in escrow for future defense use.

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Projected Defense Contribution Under EDC

- Bonn will contribute 12 groupements (divisions) to EDC under present plans.
- These can be recruited and trained within two to three years.
- The number of reserve German groupements will be determined by the EDC Commissariat.
- State Department hopes that the Bonn Government will pledge from 8 to 10 percent of the GNP for defense.
 - Hopes may be realized, since, when EDC becomes effective, the German contribution will still be based on NATO criteria in the same manner as for other countries.
 - The German heavy armaments production capability has not been officially stated.
 - Bonn hopes for foreign aid to convert industry to arms manufacturing, and in

the first two years of EDC, it expects the US to supply most weapons for the contingents.

-- NICOG has estimated that no more than one billion dollars of the needed 5.5 billion dollars worth of major equipment for the first two years could be produced in West Germany.

-- A determination of what part of German industrial production will be utilized for defense has not yet been made because:

1. The Germans claim that before they produce a utilization plan, they must know the level and type of US end-item aid;
2. US policy insists on knowing what a country can produce by itself before end-item aid is determined;
3. Because of French reluctance, the EDC Interim Commission has not developed any heavy production plans in which Bonn would participate.

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**Possible Con-
tribution
Outside EDC**

- The Defense Department informally estimates that outside EDC the Federal Republic has the capability of establishing a national army double the size of its projected EDC contingents, this to be done in seven years without any significant restrictions on the economy, and assuming continued high levels of productivity and exports.
- Defense also believes that West Germany has the optimum capacity to build 24 active divisions, and about 33 reserve divisions.
- By partial mobilization of the economy (comparable to the US effort after Korea), this force could exist within four years.
- Without partial mobilization, and assuming US aid, it could be set up in seven years, with an average yearly outlay of \$4 billion.

**Obstacles to
a German con-
tribution
Outside EDC**

- Very great diplomatic obstacles would likely arise in attempting to establish an independent West German army, i.e., one outside EDC.

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- France would almost certainly demand widespread safeguards, qualitatively and quantitatively, against German military production.
- These would affect production of aircraft, guided missiles, and atomic, biological, and chemical warfare weapons.
- The Bonn government would just as surely refuse such discriminatory restrictions.
- Under EDC, on the other hand, military production in all member countries is directed by the Commissariat, and therefore there are no restrictions against Germany as such.

Boosting German Contribution is Mainly a Political Matter

- Raising the present West German contribution to defense is a political more than an economic problem.
- There is no indication that the Adenauer government would be disposed to lay out more for defense given a national army rather than EDC.

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- If, however, following Adenauer's death, a more rightist government came to power, arm expenditures might mushroom.
- Such a government might, however, not be firmly attached to Western policies, although its dependence on the West for raw materials might act as a brake on its activities.

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